## bag-boy calls

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Sooner or later, all family dynasties find themselves on a precipice-the one where they're perched between keeping absolute control and letting go. For the Sobey family, that moment came in the spring of 2000.

David Sobey, chairman of Sobeys Inc., knew that for all the talent in his family, there was a vacuum at the top. No one was ready to run the company's core business, Canada's second-largest supermarket chain. And that core was in possible peril: Sobeys was struggling to absorb Oshawa Group, a grocery and food-distribution operation twice its size that it had taken over for $1.5 billion in 1998, nearly quadrupling its annual sales from $3 billion to $11 billion. That daring move had been a bid to catch industry leader and marketer par excellence Loblaw Cos. Ltd. Digesting the elephantine acquisition while closing the market-share gap with the still-twice-as-big Loblaw posed a daunting challenge for the family's aging third generation of operators. Had the storied Sobeys finally reached too far?

It had been magic up to this point. In the second generation, Frank Sobey had transformed his father's hometown grocery store in Stellarton, N.S., into a regional empire (see "A family bell curve," page 71). Since taking over the company's operations in 1971, Frank's three sons-David, Donald and William-had slowly built the chain. But by the time of the Oshawa deal, William, who'd run the real estate, had been dead almost a decade. Donald, the chairman of Empire Co. Ltd., the family holding company that controlled 62% of Sobeys, was nearing retirement. So was David himself. Likewise John R. Sobey, Frank's nephew and the president and COO of Sobeys.

While David's chartered accountant son, Paul, had become president of Empire, and Bill's son, Frank C., chaired Empire's Crombie Properties subsidiary, various fourth- and fifth-generation family members held lesser positions in the family enterprises. The command of the namesake business was turning into a succession crisis. "It was time," David Sobey says, "to reach out and find someone who could step up and take the company to the next level."

Which was why he quietly telephoned a friend of a friend of Bill McEwan's to inquire whether the new president of A&P's U.S. Atlantic Division might be interested in a job back in Canada. Sobey had heard the guy was a natural.

At 15, Bill McEwan lucked into a part-time job bagging groceries at Super Valu Ferraro's in his hometown of Trail, B.C. He liked the rhythms and routines of the store; indeed, he says, "I fell in love with everything" about the food business.

Jimmy Ferraro, the imposing six-foot, 270-pound co-owner of the nine-store chain, took McEwan under his wing. He taught the youngster the art of buying, pricing and merchandising groceries. After high school, McEwan spent a year-and-a-half in the arts stream at the University of British Columbia in Vancouver before Jimmy lured him back to the business full-time. There was a crisis at Ferraro's Cranbrook store, he explained, and he needed someone he could trust to manage it. "You can go back to school later," he said. That never happened.

"I felt like I'd arrived," McEwan says now. Over the next 13 years, he played hopscotch through Ferraro's informal management ranks. McEwan, who's now 47, might have stayed on at Ferraro's indefinitely if his mentor hadn't died in 1988. "Jimmy was the greatest influence on my career," McEwan says today. "The guy was magic." He was also the glue that held Ferraro's together. After he died, the business was divided among the remaining family members.

"It wasn't the same," McEwan says. So he took a job as a Toronto-based national marketing manager for Coca-Cola Ltd. Though he was eventually promoted to vice-president, McEwan's five-year sojourn at Coke wasn't satisfying. "I don't want to badmouth Coke or downplay its importance as a learning experience," he says, "but it was just a different corporate culture and I didn't fit in."

So, in 1994, McEwan returned to the grocery business as Canadian senior VP of merchandising for A&P. "It felt like coming home," he says, "but to a much bigger house."



A&P needed a turnaround, and McEwan quickly gained a reputation as a problem solver. Three years later, A&P tapped him to head up a company-wide supply-chain overhaul to remediate the messy fallout from dozens of acquisitions. Done. The next reward was being appointed president of A&P's U.S. Atlantic division in March, 2000. It represented a major promotion-McEwan would oversee 37,000 employees and 435 stores-but it came with a personal price tag. It would mean moving permanently to the U.S. while the three teenage children from his dissolved first marriage remained in Toronto.

Through the friend of a friend, he sent a message back to David Sobey.

It was raining heavily in White Plains, N.Y., on the late July morning in 2000 when McEwan boarded Sobeys' corporate jet for a flight to Stellarton to meet The Family.

He'd already passed muster with the search committee in Toronto. Today's visit to head office was the critical test. Could McEwan work with the Sobey family? And, almost as important, could he really live in Stellarton, a small mining town an hour-and-a-half from Halifax? The portents weren't promising. While working for Coke, McEwan had visited Stellarton three times, each time in a blinding snowstorm. When he and his second wife, Donna, a former marketing manager at Coke, talked about the idea of moving to Stellarton, she joked that "she'd miss him."

Those thoughts were still rumbling around in his head as the jet approached the Bay of Fundy. Suddenly, the sky cleared and the sun shone. "It turned out to be a glorious day," he says. In more ways than one.

Stellarton, seen in summer, reminded McEwan of Trail, his own smokestack hometown. Better, David Sobey, who took him on a tour of local Sobeys stores, reminded him of Jimmy Ferraro.

"David had the same instincts, the same passion and focus on the business as Jimmy did. It seemed like I was coming full circle." Sobey was equally enthusiastic. "I only wish I'd had a guy like Bill around to work with me when I was in my 40s and 50s."

When they offered him the job, McEwan was quick to say yes. So was Donna.

It was bloody cold at Melmerby Beach. A numbing wind whipped in from the Northumberland Strait. McEwan unfolded a lawn chair and sat down. Today, on this bleak December day, it seemed like the right place to clear his head.

McEwan had been Sobeys' president and CEO for just over a month. It had not been a good month.

Some of the problems had to do with being No. 2 in the business. For years, Canada's grocery industry had been a set of regional fiefdoms. Loblaw and A&P duked it out in Ontario, Safeway was dominant in the West, Métro-Richelieu was sovereign in Quebec and Sobeys ruled over Atlantic Canada.

The map changed dramatically in the 1990s as Loblaw gobbled up Bolands-IGA, began expanding into the Maritimes and then acquired Provigo to gain a toehold in Quebec. In 1998, Sobeys countered spectacularly with the deal to buy Oshawa Group, which included most of the country's IGA stores.

With the Oshawa acquisition, Sobeys had outgrown its Maritime roots. Ontario Premier Mike Harris even wooed the company to move its head office to his province. While Nova Scotia effectively gave Sobeys $3.5 million to stay put, it was clear that, wherever its titular head office was, real corporate power in Sobeys was tilting westward. It could no longer count on regional loyalty. For close to a decade, Loblaw had been quietly poaching Sobeys' Maritime customers with an aggressive expansion program. By 2002, it would nudge past Sobeys and claim 35% of the market, compared with Sobeys' 34%.

Then there was a brand-new problem. On Nov. 28, just three days after McEwan officially took charge, Sobeys' much-ballyhooed inventory control system had cacked. The $89-million software system simply couldn't cope with the Christmas rush in Sobeys' cumbersome post-Oshawa operations. The system stayed down for five days. That put Sobeys five weeks behind in the middle of a peak period. The system would have to go. That would cost the company plenty, not only in actual dollars but also-and more importantly-in Street credibility.

McEwan had explained all of that to Sir Graham Day, the new (and first non-family) chairman of Sobeys. Day, a Nova Scotia-born entrepreneur, had earned his stripes in the United Kingdom as privatization-prone Prime Minister Margaret Thatcher's favourite corporate troubleshooter. "I think it's fair to say that Bill's predecessor [Doug Stewart]didn't fully understand the consequences of integrating the two companies," Day notes.

As he mulled over things on the winter-blasted beach, McEwan was facing a special board meeting less than a month away, called by Day so that the new CEO could make his report directly to the board. But what should he tell them, aside from the obvious, that the company would have to take a $49.2-million writedown on the computer mess? McEwan didn't want to be the bearer of bad news alone. Since this was to be his first real board meeting, he wanted to give his new bosses a sense of where he saw Sobeys heading.

He stood up, walked up and down the beach, then sat back down again. The principal he wanted wasn't "value"-a cliché, always yoked to "shareholder" in a blinkered way. Worth? What was it that made being at Sobeys worth it? For customers, of course, but not just for customers. What made it worth an employee's time and talent to come in to work every day? McEwan had humped enough groceries from checkouts to car trunks to know what a difference an employee's attitude could make to customers. The same with franchisees-and Sobeys had almost 850 of them. And what would make it worthwhile for suppliers to go that extra mile? If Sobeys became worth it for its shoppers, its staff, its franchisees and its suppliers, wouldn't that inevitably make it worthwhile for shareholders too?

McEwan got up, folded his lawn chair and headed back to his car. It had taken almost three hours, but he knew now what he wanted to tell the board.

The Sobeys board supported McEwan's decision to abandon the inventory system and to focus on building "sustainable worth." That was good; otherwise, his first year at the helm still careened from crisis to crisis.

The company's stock price took a major hit-down 15%-from the writedown. It absorbed another blow a month later with the resignation, "effective immediately," of its long-time chief financial officer, the first step in McEwan's management makeover.

Things didn't finally begin to look up until April, 2002, when McEwan announced Sobeys had sold SERCA, a hotel and restaurant supplier that had belonged to the Oshawa Group. Selling the high-volume, low-margin business was a necessary part of refocusing Sobeys on groceries. But additionally, the $440-million deal helped Sobeys pay down $700 million of debt, giving it the wherewithal to buy its way to within striking distance of Loblaw.

Most analysts now credit the sale -and McEwan-for turning around the company's fortunes. As Jonathan Norwood, an analyst at Beacon Securities, puts it, "He fixed all the things that needed to be fixed. He doubled the share price, he doubled the bottom line and the balance sheet is in great shape. He's done a great job of picking the low-hanging fruit from the tree. But from here on, his job becomes much harder."

Part of that job is wrangling a herd of banners, from Sobeys to Foodland to IGA extra to Price Chopper, into a manageable set. In other words, refocusing, refurbishing and rebranding a great many of the company's more than 1,300 stores.

McEwan likes to show off the strategy-in-process. "Stand here," he tells me, pointing to a spot just inside the entrance of an airy, bright, less-than-a-year-old Sobeys in Vaughan, a suburb north of Toronto. "We call this the vista." His arm sweeps from right to left. "A customer should be able to see every department from this one spot."

Directly in front of me there's Sobeys Ready to go, a cornucopia of plunk-on-the-table meals, salads and snacks for the too-busy-to-cook consumer who's also too busy to wander the store's aisles. "Look over there," he urges. To my right, the greens, reds and yellows of the produce section stand out against a backdrop in complementary shades of green. "Every department is colour-coded," McEwan says proudly. I follow his arm leftward past the bakery (earthy browns) over to the butcher's counter.

Suddenly, McEwan's arm smacks up against a visual barrier. Problem: The florist's kiosk is too high. You can't see past it to the dairy and frozen-foods sections. He lowers his arm. His face clouds. "This store," he says, "was completed before the new prototypes were finished. But you get the idea."

At this full-service-format store, the customers are commuters and the emphasis is on convenience; next we head down to the midtown-Toronto Yonge and St. Clair store, where wealthy Rosedale customers buy what they need almost daily, so the focus is freshness and more exotic fare (the butcher offers buffalo, quail, venison and duck). Later still, we pull into a strip mall in working-class Scarborough, where the name above the recently renovated store-Price Chopper-says it all. "It's a game of niches," McEwan says.

Over the course of the next few years, he wants to boil down Sobeys' 22 banners to four main ones-Sobeys, Price Chopper, IGA extra and IGA community stores-each tailored in size, service merchandise and hours to the desires of its customers. Last year, Sobeys-which rang up fiscal 2003 sales of $10.41 billion, up 7%, and had net earnings of $179 million ($2.72 a share), up 11%-poured $546 million into renovating and expanding stores. It will spend another $600 million this year.

Up and down the warehouse-style aisles of Price Chopper, McEwan points out how this store differs from the others we've seen: "There's less variety and you don't get the same services, like a butcher on-site, that you do at other stores. But the price is right and, in these stores, price equals worth."

It will take more than the mantra of "worth" to overcome Sobeys' most glaring weakness: anemic sales-per-square-foot, which are 18% below the industry average. Cynthia Rose-Martel, an analyst with Jennings Capital Inc., says Sobeys hasn't demonstrated a viable strategy for increasing productivity. She pegs Sobeys' stock as a "grudging hold." Jonathan Norwood is more sanguine. With more than 22 million square feet of underperforming retail space under its collective roof, he says Sobeys "can continue to grow its bottom line in double digits each year just by continuing to find more efficiencies and doing what it does better."

But Sobeys' results for the first quarter of fiscal 2004 were down 8.7%, a slump that McEwan blamed on "a difficult summer selling season" in Ontario and a five-week strike at the company's Whitby, Ont., distribution centre. He warned that Sobeys might not meet its financial goals for the year. Loblaw, meanwhile, isn't waiting for Sobeys to get its act together;

reasoning bigger is better, it's building 120,000-square-foot megastores and peddling general merchandise-everything from clothing to home furnishings and gasoline.

McEwan professes not to be concerned. "We don't believe our customers necessarily want to shop in those huge warehouse-type stores. They want to be able to find what they're looking for when they need it. They want convenience, and they want a worthwhile shopping experience." Analysts are divided on that. While many see the big-box stores as de-rigueur for serious retail players-especially with Wal-Mart's much-feared move into the food business-Norwood, for one, believes "there is still a real opportunity for a pure grocery store."

McEwan is also bucking Loblaw and industry trends with his approach to private-label products. Loblaw transformed the industry in the early '80s by introducing the President's Choice line. It now offers more than 5,000 products under its own name, even services like personal banking and mortgages. Over all, the program now accounts for close to 30% of its sales. Sobeys' private-label sales are less than half that, yet McEwan is planning to reduce the number of labels. While that may simply be a response to the crazy quilt of house brands, some analysts believe it could also help the company get better deals from suppliers whose own brands have been squeezed at Loblaw.

McEwan will need all the help he can get. After all, Loblaw still has double the market share, double the profit margin and double the expansion budget of Sobeys. The fastest way to catch up, of course, would be for it to buy one of its competitors.

It almost happened. In October, 2002, McEwan's former employer, New Jersey-based A&P, announced it was re-evaluating its strategy and was ready to make "tough decisions," including selling stores, in order to return to profitability. It looked like A&P's profitable Canadian assets were on the block.

At first blush, a Sobeys-A&P marriage seemed made-in-heaven. While Sobeys now operates in all 10 provinces, its weak link is the most populous one, Ontario, especially Toronto, where it is virtually invisible and suitable real estate is almost impossible to find. A&P's 220 stores, on the other hand, are concentrated in Ontario; it boasts a 34% share in Toronto. And, of course, McEwan, who was credited with A&P Canada's turnaround in the '90s, knew the assets as well as anyone.

But the deal never happened. Why not? McEwan shakes his head. Despite A&P's earlier signals, he says, "they've now told us it's not for sale."

The industry is rife with rumours of other possible consolidations that could threaten Sobeys' hold on second place, or even, ultimately, its very survival. There was speculation, for example, that a non-food company-Wal-Mart or Zellers perhaps-might try to buy out Sobeys.

"I've heard all of those rumours," Graham Day says, "and while I never would say never, I can tell you with my hand on my heart that, so far as the Sobeys are concerned, the idea of selling has never even been on the fringes of any conversation I've had with them."

And the Sobeys, as Loblaw once discovered, certainly wouldn't make it easy for a rival to digest them. In 1960, when Loblaw already owned more than 1,000 stores to the Sobeys' piddling 20, the retailing giant tried to gobble up its tiny Maritime rival. Frank Sobey sold 40% of his chain, along with a right of first refusal should the family ever decide to sell, to Loblaw in exchange for close to $1 million.

But Frank then constructed a voting trust that made it virtually impossible for Loblaw to ever buy out the family. Loblaw was not only stymied in its ambition to take over Sobeys, but the deal also sidetracked its Maritime expansion plans for more than two decades. To add insult to injury, Frank used Loblaw's money to develop his own business. It took Loblaw nearly 20 years to extricate itself from the lopsided arrangement.

David Sobey, who extended the family story line to a new chapter by seeking out Bill McEwan, says the grocery business is "too important" to his family's view of itself for it to ever sell out. "This new generation," he says, "is just as committed to maintaining the legacy as the previous ones."

**A Family Bell Curve**

It's hard to do anything in Nova Scotia without stumbling over something Sobey. Nova Scotians buy their groceries at Sobeys stores; their conveniences at Needs, a Sobey-owned chain; their prescription drugs at Sobeys' Lawtons chain. If they go to a shopping mall, it is-likely as not-owned by a Sobey real estate company. The family even owns a chain of movie theatres.

Yet Frank Sobey (1902-1985) had an impact on Nova Scotia that went well beyond the family businesses. He was mayor of his hometown of Stellarton for 22 years. As the unpaid head of a provincial industrial-development agency, he helped lure Volvo and Michelin Tire to Nova Scotia. Those successes were offset by some even more spectacular failures-Clairtone Sound and Deuterium Ltd., to name two-that ended up saddling taxpayers with massive debts.

Like other dynasties, the Sobeys have suffered occasional embarrassment. In 1991, Donald was convicted of sexually assaulting a male and fined $750. And in 2000, David's son Paul's messy divorce made the news when a court ordered him to pay $38,000 a month in support.

But unlike any number of family businesses that have unravelled by their third or fourth generation, the Sobeys' empire continues to flourish. In part, that's because the family has sought outside advice-they've organized their own family council, with external advisers-and has not felt compelled to run all its businesses hands-on.

The idea of the council, David Sobey says, is partly "to create an I-belong feeling" among the 30-to-40 closest members of the extended clan, and partly to maintain that cohesiveness as his generation "moves completely away from the business."

"You can see the bell curve," suggests Sobeys chairman Sir Graham Day. "The first two generations, particularly the second [Frank's] were entrepreneurial. They were followed by the owner-operator generation and are now transitioning into becoming just investors."

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